



**STATE OF CALIFORNIA
GRAY DAVIS, GOVERNOR
BUSINESS, TRANSPORTATION AND HOUSING AGENCY**

Department of Managed Health Care
Office of Enforcement
980 Ninth Street, Suite 500
Sacramento, CA 95814
916-323-0435 phone
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December 18, 2002

Jeffrey V. Davis
Universal Care
1600 E. Hill Street
Signal Hill, CA 90806

Re: In the Matter of Universal Care (TNE Deficiencies)

LETTER OF AGREEMENT

The Department of Managed Health Care (the "Department") has concluded its investigation of Universal Care's (the "Plan") failure to maintain the required Tangible Net Equity ("TNE"), at all times. Based on the facts set forth below, the Department has determined that the Plan has violated Health and Safety Code Section 1376 and the California Code of Regulations, title 28, section 1300.76. The Knox-Keene Act requires that all health care service plans are compliant with the TNE requirements at all times.

In a routine exam of the Plan's filings with the Department, the Plan reported TNE deficiencies for the quarters ended June 30, 2001, September 30, 2001, and December 31, 2001. These deficiencies were confirmed by a non-routine exam of the Plan's financial statements conducted by a consultant of the Department.

Based on the violations, the Department has determined that an administrative penalty of \$200,000 is warranted. This administrative penalty took into account the following circumstances: 1) this is an independent full service plan with 355,000 enrollees; 2) the Plan will not pursue obtaining the work papers of the independent consultant and other supporting documents; 3) this penalty will resolve any and all issues raised in the Final Report dated September 13, 2002; and 4) the Department has received the Plan's financial filings through the month ended October 31, 2002 and these filings report a trend of profitability, although the Department has not audited these financial filings.

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Any subsequent violations will be dealt with as a new violation of the law. The Plan has agreed to pay the imposed \$200,000 by December 31, 2002.

This Letter of Agreement is entered into for the purpose of resolving this action. It is only for the purpose of this action and any subsequent action or proceeding between the Department and the Plan. It may not be used as an admission by the Plan in any other civil or criminal proceeding.

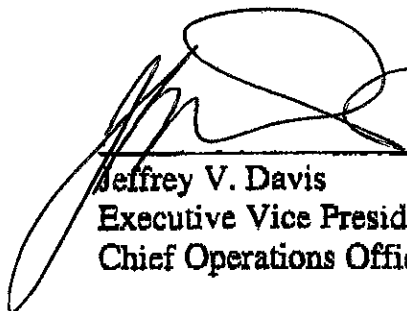
Sincerely,



Joan W. Cavanagh
Assistant Deputy Director
Office of Enforcement

Accepted by Universal Care

DATE: 12/27/02



Jeffrey V. Davis
Executive Vice President
Chief Operations Officer